Market Advisory Committee
c/o California Environmental Protection Agency
1001 I Street
Sacramento CA

Dear Committee Members,

I would like to thank you for your excellent draft report and offer comments on an area you touched on only in passing: relief to consumers.

In the report, you strongly recommend some kind of consumer relief. This is important, since a descending cap on carbon emissions will steadily raise the price of fossil fuels. Over time, this could cost California households hundreds to thousands of dollar a year, and disproportionately burden low-income households. It could also drain purchasing power from the economy and trigger a recession.

You mention two possible ways to provide consumer relief: direct rebates and tax displacement. In my view, the preferred approach is direct per capita rebates. I would like to explain why and suggest that you include in the final draft a fuller description of how this might work.

The case for per capita rebates

There are five reasons why per capita rebates (aka 'lump sum payments' or 'dividends') are preferable to other relief mechanisms.

1) Per capita rebates are the fairest and most transparent way to recycle revenue from permit auctions. Everyone will understand what the formula is and no one can say it is unfair.

2) Per capita rebates will build long-term political support for emission reductions. This is extremely important for the durability of the program, as rising energy prices will almost surely stir a backlash.

3) Equal rebates will benefit low-income households disproportionately.[1]

4) Equal rebates create the right incentives. Thus, people who burn more carbon than average will pay more in higher fuel prices than those who burn less. If all receive equal rebates, carbon gluttons will lose while conservers gain. This is exactly the right penalty-and-reward system.

5) The carbon absorption capacity of the atmosphere is a gift of creation. If that gift has economic value, a portion of that value belongs to everyone, and no one has a right to receive more than anyone else.

There are, in theory, other ways to provide consumer relief: tax shifting, rebates based on energy usage, and rebates based on need. Tax shifting is complex, outside the purview of AB 32, and likely to benefit higher income households (and businesses) most. Rebates based on energy usage would reward those who use the most energy rather than those who conserve. Rebates based on need would require some form of means testing and be perceived as welfare.

The mechanism for paying per capita rebates could be modeled after the Alaska Permanent Fund. All persons who have been state residents for one year or more and wish to receive rebates would register with a state agency. They might be given the option to credit their rebate against their state income tax or vehicle registration fee, or to their FasTrak account or private bank account via electronic funds transfer. Or, each Californian could receive a debit card credited with the appropriate amount.

Establishing a carbon cap with auctions and rebates would make California a pioneer in equitable, durable and economically sound climate change policy. I urge you to say more about this in your final report.

Sincerely,

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[1] See *Trade-Offs in Allocating Allowances for CO_2 Emissions*, Congressional Budget Office, April 25, 2007.